# Shipping Solutions for Golla Oy Online Store in B2C Markets.

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The purpose of this study was to improve the e-commerce store of Golla Oy. The main scope was in how to manage risks in an online store. The author studied theories, articles and conducted interviews for two other companies that were seen to give added value for the study.

The author searched for different theoretical aspects to help Golla Oy. Theories such as performance measurement, supplier selection, forward and reverse logistics and risk management were used. All the theories presented in the study gives a good picture of what a company should do while choosing a supplier and maintaining the relationship.

The interviews were sent to Golla and two other Finnish companies named Makia Clothing and Villawool. The purpose why these companies were chosen was that both are Finnish and both have international e-commerce operations. The products are also very similar. The interview was a success and give added-value for the study.

**Keywords**

eCommerce retailing, supplier selection, risk management, reverse logistics

# Table of contents

# 1 Introduction

Golla is a company that designs accessories for mobiles, laptops and pads. I find the company interesting because during their years in operation they have designed different products that have been more or less hits among the consumers. Golla is setting up an online store for Finnish and European markets. Their problem at the moment is that they have little knowledge of how to ship products to Europe via online markets. This is straight to consumers, not to retailers.

The goal is to find shipping solutions for Golla that are both time and cost effective. The aim is to concentrate only to the part where the products leave from their warehouse and is shipped for the customers. The concentration is not on the whole supply chain. Theories such as performance measurement, reverse and forward logistics, supplier selection and risk managed are being studied in this thesis. These theories will give added value to how to choose a good supplier for Golla and how to manage the relationship between the supplier.

The thesis includes an interview study that was made for Golla, Makia Clothing and Villawool. All these companies are Finnish and have international online store operations. The products are also very similar with each other. The goal with this interview was to find out how other similar companies have operated their online store. The interview was seen as a success as it gave very useful information and perspective how other companies operate their online store.

The author searched for different articles regarding online store shipping to find out what are the major risks included in an online store. One key factor came out more than once while studying the articled and that was free shipping. This is seen highly important among the consumers. The articles were also very helpful to find out different solutions to keep the customers interest in an online store.

The author's goal for this thesis is to learn about online store shipping and shipping in general. This is a great possibility to be a part of a starting up online store as these days online stores are gaining more market power.

## 2 Case Company Introduction

Golla was established in the early 90's in a small town in Finland called Kolla. The company was founded by two brothers Petri and Olli Kähkönen. Golla's first products were furniture that these two brothers started to design in their fathers shed. After a while they started to design different smaller items from rubber and plastic such as CD holders and toilet paper holders. One of their most known and successful product is named the Fatboy but they sold the rights to it few years ago. Some of their products were sold in the MoMa in New York. After around ten years of operation the brothers saw market potential in electronic devices such as mobile phones, lap tops, pads and music devices. Golla was operating as a sub-contractor for Nokia for a while before Golla started producing mobile accessories independently. Today Golla has been able to contact markets all over the world for more than 40 million consumers with their Generation Mobile brand. 99 percent of the income Golla is making is coming from international markets.

Golla is employing at the moment around 60 employees. Their revenue from 2011 was 26 277 000 euros. Golla products are being sold in over 100 countries at the moment. They have offices in Finland, Germany, Japan, USA, France and China at the moment and the headquarter is located in Helsinki.

(Golla.com)

# 3 Theoretical framework

In these following chapters will be looked into the theoretical parts of this thesis. The paper will include theories such as performance measurement, reverse logistics, supplier selection and risk management. By the help of these theories the thesis has a goal to find solutions and help for Golla's online store shipping in linkage with a research study made with two similar Finnish companies.

## 3.1 Performance measurement

Performance measurement is an important element of a successful supply chain. The focus is on monitoring the participants inside the supply chain and evaluating their performance. The focus can be on individuals or groups. After monitoring, the data is evaluated by professionals qualified for that so that the results are as accurate as possible. Usually the focus in purchasing, in this case services, is in-house but as the time has moved on the focus has spread to monitoring also the service supplier. This gives valuable information for the buyer how their service provider is succeeding with their actions. (Cousins, Lamming, Lawson & Squire 2008, 144-145)

The basic idea of performance measurement in a supply chain is to gain information that helps the company to keep its strategy in process. There are several ways to gain information but the most effective way is to observe the financial and non-financial information. If there are any dramatic changes while looking in to information from a certain time period, it is easy to recognize the changes and see what the possible problem is. For example in this case a logistics provider might suddenly have massive wastage with the products sent for the customers. If this would happen it would be wise to consider actions in changing the logistics service provider. (Cousins, Lamming, Lawson & Squire 2008, 144-145)

## 3.2 Performance measurement as signaling devices

Performance measurement can influence the people that are working within the tasks that are measured. It can be motivating for the employees to gain information of their performance so that they will know what they are doing well and where there is room for improvements. This is a way to activate the employees so that they will give all that that they have. For example if a company only cares about the costs of a service the quality of the service will eventually become a secondary issue that can create problems in the long run if you consider the reputation of the company. (Cousins, Lamming, Lawson & Squire 2008, 145-146)

## 3.3 Cascading performance measurement

When thinking about an effective performance measurement system it should be clear for the whole company from the top levels to the bottom levels of the expectations what the management wants from their employees. (Cousins, Lamming, Lawson & Squire 2008, 146-147)
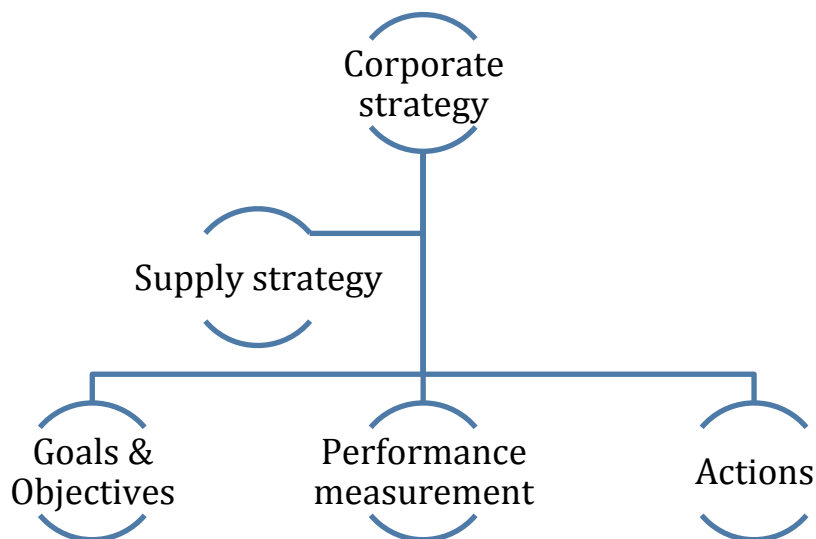
Figure 1. Strategy of performance measurement.

The goal is to create a combination of the corporate strategy, supply strategy, goals and objectives, performance measures and the actions of the employees. In the figure above the corporate strategy is naturally seen the most important. The supply strategy should be made so that it is following the corporate strategy. As the strategies are clear for the employees they will know what are the goals and objectives with the supply chain. With this information it is easy to measure the performance in the supply chain. After the measurements are done and the results are ready it is time for actions made by the employees for possible changes. (Cousins, Lamming, Lawson & Squire 2008, 144-145)

## 3.4 Benefits of measurement

There are several ways to gain benefits from a well organized performance measurement.

**Decision making**. This can be improved with the right types of measures trough out the organization. With the data gathered from performance measurements it is easier to make decisions because the data is better available. Decision making will be quicker and easier.

**Communication**. When the targets that are important for the purchasing department and their customers are clear they can lead to a better communication flow between each other. (Cousins, Lamming, Lawson & Squire 2008, 147-148)

**Visibility**. With a clear view of the objectives and targets will give good visibility of the purchasing process. This is a way for the other departments to notice if there is any waste like defects, delays, surpluses or mistakes. (Cousins, Lamming, Lawson & Squire 2008, 147-148)

**Motivation**. When measuring the performance it makes people perform differently. If the measures indicates that the people who are working with a certain task are succeeding it will most likely increase their motivation. Measuring can also distract the employees if there is no specific point with the measures. They will feel anxious because of the monitoring with no feedback but in most cases measuring the performance will increase the motivation.

(Cousins, Lamming, Lawson & Squire 2008, 147-148)

## 3.5 Problems with measurement

When considering the performance measurement it can also produce problems inside an organization. This can cause harm for the purchasing process.

**Conflicting messages**. If it is not clear for the managers and buyers what are expected from them it will most likely cause problems. While they have no clear picture of the expectations they can send each other conflicting messages that only causes harm for the supply chain process. (Cousins, Lamming, Lawson & Squire 2008, 148-149)

**Collection of inappropriate information**. Problems can also occur with false information. For example if the measurement tools purpose is not to measure performance in first hand but to meet other operational purposes, it can create false information. These can be inventory tracking and order processing. (Cousins, Lamming, Lawson & Squire 2008, 148-149)

**Lack of goal congruence**. Basically there is no point in measuring the performance if the results do not inform the participants of how the goals have been met. (Cousins, Lamming, Lawson & Squire 2008, 148-149)

## 3.6 Financial and non-financial measures

An organization can get added value from purchasing in many ways. A lot of these ways can be seen related to the final price of a product or service but that can be harmful for the organization. Other factor such as delivery reliability and the quality of a service or a product are as important as the pricing or can be considered to be even more important if thinking about the costs in overall. A company can lose customers if their quality for example weakens or if their delivery schedules are not as they should be. Losing customers costs money in the long run and there is a quite good example for this from last summer.

An importing company named Seab Finland had purchased warehouse services from a big logistics provider in Finland. During the spring and summer the current warehouse provider had problems such as damaged goods and false inventory records. Due to these problems Seab Finland had to change their warehouse service provider to a smaller and more reliable one. (Cousins, Lamming, Lawson & Squire 2008, 150-151)

If an organization focuses too much to financial data it can be misleading. Focusing only to cost savings can have quite different end results as the organizations overall goals are. When thinking about financial accounting systems they have quite the different goal and purpose than the tools made for measuring business control. In many organizations in todays business the performance measurement tools are focusing on the past data rather than the future. Also financial data is considered to be more important than the operational data. The data these indicators provide is naturally important for the organization but it does not give the knowledge of the performance and the customer satisfaction. That is why the managers should monitor both financial and non-financial indicators so that they know exactly how much is spent and what it does for the customer satisfaction. (Cousins, Lamming, Lawson & Squire 2008, 150-151)

Table 1. Value-adding activities that purchasing may succeed to achieve.

| Strategic | Tactical |
| --- | --- |
| Supplier relationship management | Contract negotiation |
| External resource management | Contract management |
| Customer satisfaction | Improved utilization of money |
| Product development | Provision of commercial acumen |
| Process reengineering | Improved productivity |
| Supply chain management | Reduction of internal operating costs |
| Customer & supplier education | |

(Butler, 1995.)


## 3.7 Categories of performance measurement

An organization has hundreds of different possibilities in measuring their supply chain performance. Some of the measures concentrate to the supply base, some concentrates to the Purchasing department and their performance. The most effective way to measure performance in an organization starts from the very beginning of their supply chain all the way to the customer. There are five major categories that the supply chain performance measurement concentrates to. (Cousins, Lamming, Lawson & Squire 2008, 152)

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                    ┌─────────────────┐
                    │  Supply chain   │
                    │  performance    │
                    │    measures     │
                    └────────┬────────┘
        ┌──────────┬─────────┼─────────┬──────────┐
   ┌────┴───┐ ┌────┴────┐┌───┴───┐┌────┴─────┐┌───┴──────┐
   │  Cost  │ │ Quality ││ Time  ││ Supplier ││ Customer │
   │        │ │         ││       ││performance││satisfaction│
   └────────┘ └─────────┘└───────┘└──────────┘└──────────┘
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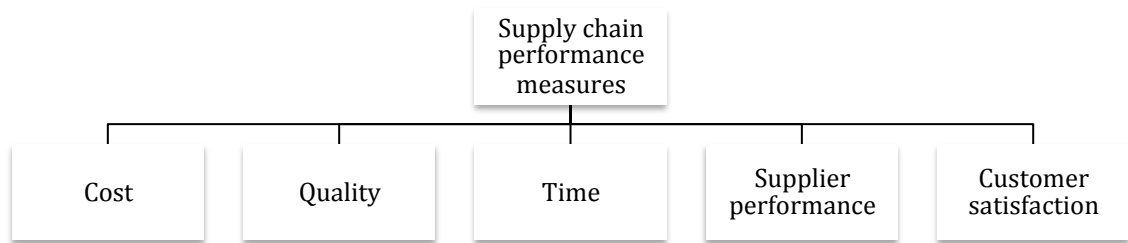
Figure 2. Categories of performance measurement.

### 3.7.1 Cost

Measures that are related to the costs can help to figure out how much the purchasing department is spending and give the information whether it is effective or not. Simply put this gives the information if the budget is in order or is the purchasing department spending too much money. (Cousins, Lamming, Lawson & Squire 2008, 153)

Total distribution costs are critical for an organization in such way that they need to be efficient and cost-effective. (Cousins, Lamming, Lawson & Squire 2008, 153)

Total inventory costs can be the biggest cost for some organizations. In some cases almost 50 percent of the company's assets can be tied to their inventory. The smaller inventory a company have the smaller the costs are roughly said. Of course a smaller inventory can cause longer lead-times if the products wanted are not available for further shipping. Forecasting the demand will help a lot with managing the inventory. (Cousins, Lamming, Lawson & Squire 2008, 153)

## 3.7.2 Quality

Quality can be considered the most important factor for keeping the clients happy. Quality can be seen in three different parts that are manufacturing, supplier and customer related. (Cousins, Lamming, Lawson & Squire 2008, 153)

There are many ways to evaluate the quality of an item or a product. Usually these are seen in yield rates or measured the amount of good products from the whole production. (Cousins, Lamming, Lawson & Squire 2008, 153)

A good way to monitor quality within products is to keep track of the products that have faults. This is often done so that the products that are delivered are reviewed and then calculated how many products have faults. The results are in percentages. This is a good way to monitor individual suppliers and their performance. Usually companies have a minimum quality benchmark so that they can easily see which suppliers succeed to fulfill it and which does not. A good way to add some competition between different suppliers is to have the records as transparent as possible. (Cousins, Lamming, Lawson & Squire 2008, 153-154)

Third way to monitor the quality within products is customer returns. If the usual benchmark is zero failures it is easy to notice the faults and examine where the faults happened and what caused them. A company can use failures as an advantage as they can gather the data and improve their products by using it. This can only improve customer satisfaction. (Cousins, Lamming, Lawson & Squire 2008, 154)

### 3.7.3 Time

Time management is highly important for a company that manufactures products. A company that has a superb product but ships it late to the customer will suffer a huge reputation loss. The basic idea for a company is that their deliveries are 100 percent on time but this also must contain a perfect manufacturing time management so that the products can be sent on time from the factory or assembly line. (Cousins, Lamming, Lawson & Squire 2008, 154)

First measurement tool is simply to measure that the deliveries are on time. The delivery can be tracked in-house or the information can be received from the customer. Usually the information that comes from customers is related to failed deliveries. (Cousins, Lamming, Lawson & Squire 2008, 154)

Second measurement tool is customer response time. This means how fast a company reacts to orders that are placed by customers. The faster the better in this case so that there is not any wasted time. Fast response time is a good way to gain appreciation from the customers that will boost the reputation of a company. (Cousins, Lamming, Lawson & Squire 2008, 154)

The third measurement tool is backorder or stock out. Backorder means that when a customer orders a product but it cannot be sent due to lack in inventory. The customer will be informed in this case that the product is currently not available but will be sent as soon as possible. A company can calculate the number of backorder days and analyze the amount of the days in a certain time period. Stock out means that a product is not currently available. (Cousins, Lamming, Lawson & Squire 2008, 154)

### 3.7.4 Supplier performance

Usually when assessing the supplier performance more subjective measures such as non-financials are being used. A key tool in this is the information flow and how good is it. With a perfect information flow between a logistics provider and a company that has the products usually leads to good collaboration. (Cousins, Lamming, Lawson & Squire 2008, 154)

### 3.7.5 Customer satisfaction

Companies usually measure their own performance in operations but also they gather data received from the customers. This is highly important data if thinking about the reputation of the company. (Cousins, Lamming, Lawson & Squire 2008, 154)

### 3.8 Reverse and Forward Logistics

Reverse logistics contains different processes that are needed when returning waste materials and used products to the manufacturer. Used products can be returned because of the product does not qualify to meet its standards or it is already broken when the consumer opens it from its storage box. A good reverse logistics operation can lead to significant cost savings in the production process.

Forward logistics is simply put the material flow from a supplier or manufacturer to the stores or directly to the customers. The most important task in a supply chain is to manage the material and information flow. A supply chain can have many different entities in it. While forwarding the product inside a supply chain every part of the supply chain can include returns if there is something wrong with the parts of the product. For example a car has its part shipped from many different places to the assembly line. If a batch of steering wheels are somehow ruined when the assembly line receives them, the steering wheels are being sent back for recycling, re-use or disposal. Same thing happens when a customer receives a faulty product. (Harrison & van Hoek 2008, 6)

### 3.8.1 Definition of reverse logistics

"Reverse logistics comprises all activities involved in managing, processing, reducing and disposing of hazardous or non-hazardous waste from production, packaging and use of products, including the processes of reverse distribution." (Steven 2004)

Sometimes reverse logistics is also known to be called as "logistics backwards" because of the fact that the flow is opposite with the original flow of a supply chain. Normally the flow in a supply chain starts from the supplier who sends all the necessary raw materials to the manufacturer who then produces the product. After the product is ready the manufacturer sends the product to the retailers who then will sell the product to the consumers. Reverse logistics deals with the information that is important when collecting used products and packaging materials. With the information the used products and packaging materials can be brought to the places where they reused or recycled. (Dyckhoff, Lackes, Reese 2004, 164)

Reverse logistics includes different processes that are also important in supply and distribution logistics whereas other processes are more focused to backwards logistics.

− The collection of these processes includes collecting waste from various places of origin that are usually in a wide area.
− To cut down the waste volume sorting is highly recommended.
− Transportation is necessary when collecting the waste from various areas.
− Warehousing should be in order before the transportation of the waste takes place. Waste has almost always no value so restoring waste is not as important as the traditional warehousing.
− The goal is to process the products so that they can be reused or to turn them so that they are harmless for the environment. (Dyckhoff, Lackes, Reese 2004, 164)

### 3.8.2 Activities of reverse logistics

The German commercial and industrial waste avoidance and management act (Kreislaufwirtschafts- und Abfallgesetz, KrW-/AbfG) came into force in 1996. The purpose of this act is to define a hierarchy for waste related activities. The highest priority is waste avoidance. In practice this means that the packaging of the products is more environmentally friendly and also the life of the products would be longer. If this is not possible, there are five steps that needs to be taken into consideration: (Dyckhoff, Lackes, Reese 2004, 165)

1. Reuse
2. Remanufacturing
3. Recycling
4. Disposal with energy recovery
5. Disposal in landfill
   (Dyckhoff, Lackes, Reese 2004, 165)

In this case reuse means just what the word means in general. The product is being reused without any bigger changes. This is number one in the hierarchy because it generates less waste to put the product to the markets again. A good example in this case would be the bottle or can return system that is very efficient in Finland. (Dyckhoff, Lackes, Reese 2004, 166)

Remanufacturing has the second place in this hierarchy. This means that the product is reconditioned so that it is good for the markets again. You can do this for example for clothes or cars but after reconditioning the product is not as good as it was when it was made in the first place. (Dyckhoff, Lackes, Reese 2004, 166)

Recycling has the third place in this hierarchy. Recycling means that a product is being dismantled in to parts. After the product is in parts some of the parts can be used right

away and some of the parts can be used as raw material once again. For example you can dismantle a phone and use the components as they are and then melt the plastic in it for further use. (Dyckhoff, Lackes, Reese 2004, 166)

## 3.9 Supplier selection

A few decades ago the supplier selecting actions were not important when thinking about it strategically. The main concern was in the price and who made the lowest bid won. These days companies put more value to how the supplier can help the company strategically. When a company is outsourcing their supplier it makes the company dependent on the supplier. This is why it is highly important to find a quality supplier at once to cut any possible losses. These losses end up usually being financial especially in the long run. A bad supplier can hurt the company's reputation among customers that can lead to customer losses that hurts the company financially. A good supplier gives added value in many ways and will improve the reputation of both companies. When selecting a strategic supplier it contains four major steps:

1. Initial supplier qualification
2. Agree measurement criteria
3. Obtain relevant information
4. Make selection
   (Cousins, Lamming, Lawson & Squire 2008, 59-60)

These steps are being clarified in the following chapters.

## 3.9.1 Initial supplier qualification

The first step of choosing a supplier is supplier qualification. The aim is to identify the needs and see which suppliers can meet them. These actions help to narrow the list of suppliers to a much smaller more manageable amount of suppliers. A company can ask information from potential suppliers in many ways but two are usually being used.

Information regarding the selection can be gathered via online surveys or more specific requests of information. There are three major types of request that can be made:

- Request for Quotation (RFQ) – This is a document that is issued when a company wants to purchase a product, service or an item. This document has specifications of the needs so that other companies can also make their bids. This is not an offer but more a request for price and availability.
- Request for Proposal (RFP) – This is a document that is issued when a company wants to purchase a product, service or an item. This request is not an offer request. The aim with this request is to get information of the designs, price and availability of the services. If the requirements are fulfilled the companies can start their negotiations.
- Request for Information (RFI) – This is a document that is issued when a company wants more information of a certain product or a supplier.

The financial status of a supplier is considered to be highly important. The buying companies need to know that the supplier has a healthy financial situation so that the cooperation will not suddenly end. This can hurt the buying company severely. (Cousins, Lamming, Lawson & Squire 2008, 60-62)

### 3.9.2 Agree measurement criteria

The next step in selection process is that a company needs to identify selection criteria that are relevant for the company. A company needs to have specific criteria for a certain product or service so that the measurement is accurate and does not create any waste in labor hours. Many companies are making the mistake that they put too much effort to measuring and does not think before hand what measures would create the best added value for them. It is considered in this case that less is more. The less measures that are accurate a company has, are most likely to create the needed data and added value the company needs. (Cousins, Lamming, Lawson & Squire 2008, 62)

There is a new trend rising among companies when looking into the selection criteria. Earlier it was almost all about the price of the service or the product but now companies are more concerned about the hidden costs that a service or a product can cause. The other costs can be such as environmental, quality, training or delivery. The list of hidden costs can go on and on depending on the service or product. The total price is the visible cost but a company can suffer from for example late deliveries or bad quality of products. A company must also spend money for employee training or environmental penalties. A good example would be that an oil tanker crashes and spills tons of oil in to a sea. The company responsible of the oil must pay a lot of fines and the cleaning as well of the environmental catastrophe. (Cousins, Lamming, Lawson & Squire 2008, 62)

A buyer needs to consider all this when a service or a product is being bought. Should the company choose the more expensive choice or end up with the cheaper choice with more risks to create added costs. If a company is looking for a long-term solution it could actually be cheaper to choose the more expensive one to avoid all the added costs. A good supplier can also create added value for the company and improve their image among the consumers. (Cousins, Lamming, Lawson & Squire 2008, 63)

### 3.9.3 Gain relevant information

In the selection criteria process the third stage is to gain relevant information so that different suppliers can be compared to each other. It is important to have the information available so that it can be compared between two or more suppliers. The information has to be up to date and precise. Information for the selection can be obtained from suppliers themselves, visiting the suppliers or doing performance measures to the suppliers actions. (Cousins, Lamming, Lawson & Squire 2008, 67-68)

## 3.10 Risk management

In the today's world where economic crises, terrorism and different conflicts are almost an every day issue, the risks with logistics and transporting are even more current. Companies tend to ignore risk management in their supply chain, as it is easy to think that why to put effort to something that is rare to happen, for example wars or thefts. It is similar to think that why to pay for insurance when nothing is going to happen anyways. This all is true but if something would happen the company would be in severe trouble if they would not have thought of risk management and how to operate when something happens. Here is a list of risks that can occur when transporting goods in international markets:

- Force Majeure
- Issues related to currencies
- Issues related to economic situations
- Customs
- Issues related to humans
  - Strikes
  - Errors
  - Thefts
  - Accidents
- Political conflicts

In Supply chains every single risk can affect severely to the whole flow of the supply chain and cause damages for the company. These damages can either be financial or reputational, or both at the same time. Some of the risks are obvious for a company for example that some of the goods can be damaged during the transportation or the transportation can be delayed for some reason. More rare risks for example caused by force majeure can be the ones that cause serious damage. An example of force majeure would be for example that a carrier vessel sinks with millions of euros worth of

products on it. The company whose products were on that vessel will suffer but also those who ordered the products because they are not able to sell the products. Accenture made a survey for 151 supply chain executives from large United States based corporations to find out what reasons they find as a threat in future supply chains. Here is a list of those threats: (Inbound Logistics, 2006.)

– Unstable fuel prices – 60%
– Supply of raw materials or parts – 50%
– Cost of labor/materials due to currency instability – 44%
– Supplier planning/communication issues – 40%
– Manufacturing capacity – 39%
– Port operations & customs delays – 36%
– Service failures due to longer supply lines/lead times – 36%
– Delivery/quality performance of supply chain partners – 36%
– Geopolitical instability – 35%
– Reduced accuracy of forecasting/planning – 34%
– Logistics capacity and/or complexity – 33%
– Inflexible supply chain technology – 33%
– Natural disasters – 31%
– Terrorist penetration of cargo – 30% (Inbound Logistics, 2006.)

Not all of the information is related to Golla Oy's online store shipping but there are some good points that are important. For example supplier communication issues are crucial for a successful supply chain. Even though online store is a small part of Golla supply chain it still is important because of it interacts with their customers directly. Port operations and customs delays can also cause problems and extra work for Golla. It is not their fault but from a customers point of view it can be seen differently. As mentioned earlier the quality performance of supply chain partners is important so that the products are in perfect shape when the customer receives them.

One way to decrease risks in supply chain management is to use Just-In-Time or lean operations. Just-In-Time operation creates a supply chain so that the materials needed

for production are in a certain place just when the materials are needed. This way of operation decreases warehousing costs because there are almost no materials that are needed to store. This can prevent risks in warehouse management. In lean operations the aim is to minimize all actions that are waste of time in a supply chain. These are:

- Transportation & Handling
    - This is considered to be movement of paperwork and data.
- Warehousing
    - Products waiting in a warehouse are not making any profit.
- Motion
    - This is seen as human motion. Extra movement from humans is waste of time.
- Waiting time
    - This can be anything from waiting from an answer to a slow computer. Every second used for waiting is waste of time.
- Overproduction
    - Any process that is done on a routine schedule although the process is not necessary at the moment.
- Over processing
    - The process is not error free. The people who manage the process rely that the errors are found in inspections. The process should be designed so that it would be error free. Using multiple information systems rather than one.
- Defects
    - Errors in entering the data to the systems. Absent employees. All defects causes extra work inside a supply chain. (Systems2Win.)

First a company will need to identify the possible risks in their supply chains. This includes every risk from a possible volcano eruption to some minor risks such as delays in transportation. For example when the volcano erupted in Iceland 2010 it affected to the whole air traffic in northern Europe. A lot of products are being shipped via air so this must have caused a lot of damages for companies whose products did not reach their destination. In these kinds of situations a supply chain manager needs to have a second plan for transporting goods. And this cannot just be a

plan that has been written in paper and that is it. The plan needs to be tested so that when an accident happens in the supply chain it really works and helps the company.

A company should have multiple options for transporting goods so that if one fails there is always another party who can deliver the goods for the customers. Having just one logistics partner can work if the partner is big enough to provide multiple transportation modes for example in case of a volcano eruption or a hurricane. It is also important to monitor the countries you are operating in. This means monitoring their economic and political situation, weather, fuel prices or possible labor strikes that can occur.

# 4. Research

A small survey was conducted for two companies that are operating in Finland but has an online store from where the companies ship products to other countries. A list of 16 questions were made for the companies with few sub questions to gather information related to their actions with their online store and specifically shipping. The main focus in the survey was in how did the companies choose their supplier, do the companies measure the suppliers performance and if there has been any risks regarding to the suppliers and their actions. The two companies that answered to this survey was a Finnish clothing brand called Makia Clothing and a Finnish hat producer called Villawool. Neither of these companies has the same volume as the case company Golla has but the reason why these two companies were chosen was that both are Finnish and both have similar products that they send to their customers. With similar products they probably use similar services in their shipping so the researcher was hopeful to find out results that could help to make the conclusion for Golla Oy.

## 4.1 Introduction to Makia Clothing

Makia Clothing was founded in Helsinki in 2001. Their turnover in 2012 was 2,39 million euros. They have headquarters in Punavuori area in southern Helsinki. Makia had also a warehouse in Helsinki but because of cost reasons they moved their warehouse from Helsinki to Netherlands where they had already their bigger warehouse. Makia Clothing has nine registered employees here in Finland as Golla has 38 employees. Makia is still a rather small company although they have managed to grow in the past few years. One of their most successful products is the Raglan Parka that is a winter jacket. The winter jacket has been seen in the Helsinki street view more and more in the past two years.

## 4.2 Introduction to Villawool

Villawool is a family owned company established in Helsinki in 1975. It is a company that started producing hats by knitting them by hand at first in Helsinki. At the moment they have their factory in Saaremaa where they still produce all their products by hand. The company is still owned by family Tikkanen. In ten years they made a huge success that led to sales all over in Europe and even in New York and Tokyo. Villawool supports ecological values. There are no figures from Villawool available regarding their sales or turnover but the company is even smaller than Makia clothing to give a small picture.

## 4.3 Questions for the companies

A list of questions was sent for Makia Clothing, Villawool and also the case company Golla Oy to find out about their online store shipping and other actions regarding it. Here is the list of the questions that were sent to the companies:

1. What kind of service provider do you use?
2. Do you have multiple service providers?
3. Do you monitor their performance?
   1. If yes, how? Time, costs, etc.
   2. If yes, what kind of measures do you use?
4. Do you gather information of customer satisfaction related to your performance?
5. What is your policy in product returns?
6. How do you operate if a customer has received a faulty item?
7. How did you choose your current supplier?
   1. Did you measure their performance beforehand?
   2. Did you check their financial status?
   3. Any other facts that affected your pick?
8. Have you thought of risk management in your supply chain?
9. Have you faced any problems related to customs?

1. Any other issues related to over seas shipping or inside Europe?
10. What happens if your products are being damaged during the transportation?
    1. Who is responsible and how is it settled?
11. Any other risks related to your logistics provider that comes in mind?
12. How do you operate if a customer does not get their product for some reason?
13. What happens to the returned products?
14. What is your company opinion of recycling?
15. How is the information flow with you and your logistics provider?
    1. Is it transparent or do you have difficulties to get information from your provider?
16. Do you keep track of the amount of returns and the reasons that caused the returns?

## 4.4 Answers from Villawool

As Villawool is a rather small company their online shipping is rather simple. As logistics service provider they have chosen to use normal post office which is Itella here in Finland. Villawool is not monitoring their service provider's performance in any way and they do not gather any information from customers regarding their performance in logistics. Their policy in returns is free at the moment if the product is un-used or has a manufacturing fault. Their actions to a faulty item are that they give money back for the customer or they will send a new product for the customer. Villawool chose their logistics service provider simply with a cost approach as it was the cheapest service provider in the markets. They have not faced any particular risks while thinking their online store shipping and due to that they have not thought of risk management either. If the products are damaged during the transportation, Villawool is responsible of that. Their actions in reverse logistics are quite simple. If a product is faulty they will try to re-use as much as possible of the product and they are open for recycling if that is possible. Their information flow with the post office is nonexistent. Villawool is keeping track of the amounts of returned products and what caused the customer to return the product in the first place.

When thinking about VillaWool and its online store it is rather small in comparison with Golla. They have a very simple approach to their online store and have not thought of any risks with it. What VillaWool actually gives in comparison is how not to do the online store shipping as they only have thought the costs for the company in choosing the supplier. A good supplier gives a lot added value for a company. In general the author made a bad judgment call to use VillaWool as one of the companies in the interview as it is simply too small and simple if comparing to Golla. The operation that VillaWool runs might be suitable for a business their size but would not work with Golla as it is many times bigger and more global.

## 4.5 Answers from Makia Clothing

Makia Clothing is using two logistic service providers just as Golla does. They have a contract with a company called Postnord and then Finnish Itella. They are using a software called Pupesoft for managing their logistics, warehousing, shipments, transportation and deliveries. As payment methods they have chosen Klarna, Paytrail and Paypal for their web shop.

Makia is monitoring their service providers performance in many ways such as lead time, costs, possible collection deviations, warehouse balance and payment traffic. From the Postnord extranet Makia can see the live status for the orders that are being shipped. Itella has tracking codes as earlier mentioned so that Makia and their customers can follow the orders.

Information related to customer satisfaction is important for Makia. They are gathering information regarding to returns or products changes and analyzing them if needed to find out the reasons what caused the returns or changes.

The products have a full 14 days change and return possibility but the products need to be in perfect condition and in their original packaging. Makia is handling faulty items individually. They want to give the best service for the customer who has received a

faulty item. They are asking pictures of the product and if the fault is caused by production or bad quality they are trying to offer the same product that is in perfect condition or a new product with same value. If this is not suitable or possible in some way they will offer a gift card to their online store. There is also a possibility to get the money back inside the 14 days if the product is not pleasing the customer.

Makia chose their suppliers by analyzing and comparing them to each other. They had several suppliers in mind and they managed to find the most suitable for them. The current service providers has good reputation in the markets so they did not need to investigate the companies any further for example their financial status.

Makia has thought of risk management in some ways in their supply chain. Both their warehouses are of course being insured and the transportation via their web shop is their logistics service provider's responsibility. Shipping products outside the European Union is more expensive and slower than shipping products inside the EU and the same thing is with the returns. While shipping inside the EU there has not occurred any problems. If the products are being damaged during the transportation, their suppliers are honest and trustworthy so that they will inform Makia that it was their fault. If the mistake is made by the supplier, it is their responsibility to cover the damaged product.

If a customer does not receive the product ordered for some reason, Makia will personally contact the customer for further actions. At first Makia is trying to locate the missing package but if the package is not found they will have to send a new one for the customer. Makia has a goal to keep their customer satisfaction high so they will take care of all the possible costs from a missing package.

As already mentioned earlier Makia will check the returned products and the ones with perfect condition will be sent back to their warehouse. If there are products with faults they will contact their manufacturer for reclamation. If possible Makia will try to re-use the product somehow. Recycling and sustainability is very important for Makia Clothing. If possible they are always trying to find a new way to use damaged goods.

For example they have made a winter hat collection in collaboration with Costo and the materials used for the hats were from their damaged winter jackets. Of course their goal is to make high quality products that can handle both time and consumption.

The information flow between Makia and their service providers is good. It is continuous and current. Their service providers are very active to contact Makia.

Makia is keeping track of the amounts of returns and the reasons that caused the returns. They are building up statistics so that they can improve their actions and collection by analyzing the information. They can see which products are more popular to sell via online and which are not. They can also see the reasons that cause product returns and by that they are trying to improve their actions and products so that there would be as little returns as possible.

## 4.6 Answers from Golla

Golla is using courier service and normal post office as their logistics service providers in their online store. These are the two options they are currently using. The courier service they use is also their partner regarding other shipping and this means in practice everything that includes transporting their goods. With the courier service Golla has quarterly reviews regarding their traffic and how they have performed. The postal services are more difficult to monitor or influence but they have bi-annual reviews with them as well. They have certain service level parameters agreed on the contract for example lead times. In the review meetings Golla and the courier service provider goes through the parameters as well as the volume of the traffic. If there has been any special cases during the quarter or anything else they give feedback to each other both ways. Their current online store business is relatively small.

Golla does not specifically gather information from their customers regarding the online store but there is a possibility to rate the product and/or comment about the service.

Their policy with returns is following the current legislation and they have no plans to change it although it is going to change.

Golla has only once sent a wrong item to a customer and as the value of the item financially was very low they let the customer keep the item and sent the actual item afterwards to he customer. That has actually been the only fault regarding items that were shipped. They have not had a situation where a product was somehow faulty and not useable. All products are packed by their own personnel who know the products and are able to see if there are something wrong with the products. However if this would happen, depending on the fault of the item, they would process it as any other consumer claim. Golla would check what is wrong with the item and proceed to check if it is a known issue with the same product or just a random event. Golla will request pictures of the item so that they can confirm that it is their product. The customer is asked to return the faulty item back to Golla so that Golla pays the costs and if the item is faulty the customer will receive a new item with no added costs.

When Golla was choosing their logistic service provide the choices were very natural for them as post is post and it works internationally and has tracking options with the parcels. It is also a very standard option in the Finnish web shops. The courier service provider was already Golla's partner and as the traffic is still quite small at their online store it was a sensible solution to make a deal with an existing partner. Due to the established relationship they have with the service provider they were able to offer them a very competitive pricing which others were not able to do.

Golla has thought to add risk management in their supply chain in some extent. The situation with the web shop at the moment is so that the web shop is quite small compare to their normal business. The risks in the web shop supply chain are not that significant. The value of their products is rather small so the biggest risk is regarding an individual shipment is that they will lose a bag. While Golla is selling millions of bags per year the risk is really small.

Currently Golla ships only inside EU from their web shop so they have not faced any issues so far related to customs. They think that this is partly because they are using reliable partners that they already know.

The products Golla ships through their web shops are not the kind of products that would easily damage during transportation. If a situation where a product or products would be damaged during the transportation they would asses the situation together with their partners and the customer and proceed to a solution that would satisfy everyone.

The courier shipments have to always be signed for a receipt. The receipt works as a proof of the delivery and is a legally binding document that Golla has sent the product. Their web shop says in the terms and conditions that after the shipment have left Golla facility the customer is reliable of the product. The have had one case where a customer did not get the product as the courier handed it to a wrong person. In this case, as already mentioned their products value are relatively small, Golla sent a new product for the actual customer. They say that they also have to think about their brand image in their services. Post parcels in the other hand can only be received by showing a legit identification document at a post office.

During their web shop history Golla has had very few returns. If this happens they check that the product is in re-sellable condition and refund the money for the customer. Golla mentions that the importance of the recycling has increased and will most definitely increase in the future. This could be a good solution for faulty products to make cost savings and gain more brand image.

Golla has named contact persons with both the postal service and the courier service. The customer service with both companies has been very good so far.

They keep track so that prior to the return they ask the customer to contact Golla. Legally they are not obligated to give a reason for the return so it is up to the

customers if they want to share the reason for the return or not. So far Golla have had only three return via the web shop and it has been up and running for a year now.

Payments in the Golla online store can be made with Visa, Visa Debit, Visa electron, MasterCard and Debit MasterCard payment cards. You can also use PayPal in Golla online store.

## 4.7 Article study

First article is a blog post written by Mark MacDonald to shopify.com. The post is about how to choose a shipping strategy for an online store. The main focus in this article is about the pricing of the shipping. Many online stores has the same problem that it can lure possible customers to the store and the customers finds attractive products but then the final purchase is not happening. This is mainly because of the pricing of the shipping. Many customers think that the product ends up too expensive after the shipping costs but of course some customers do not mind about this and continues to check out.

The main goal for a company is to find out a solution that does not scare the customer away but also does not generate losses for the company. North American Technographics made an online survey to find out what is the biggest reason for abandoning a shopping cart. The survey had multiple responses and 44% of the respondents said that shipping and handling costs were too high. Other reasons were not related to logistics. (UPS, 2011.)

First option for this problem is that you offer free shipping. This is usually offered only for domestic purchases but could also be considered for international orders as well. Free shipping has a negative side that it can decrease the profits made from the online store. A solution for free shipping is that you increase the product prices slightly so that it covers the damage that free shipping causes. Another solution with free shipping is that it is only available after a certain value of the shopping cart or a certain

amount of products. This can help the online store to get more purchases from a single customer.

Other way is to make the customer pay just as much of the shipping that you do. Some online stores offer a possibility of a calculator that calculates the exact price for the shipping in the end of the check out process. With this system you can achieve a lot of trust from the customers because they will know that you are not trying to make profit with shipping costs. It is not necessary as effective as free shipping but the trust aspect is very important.

You can also offer even costs regarding the shipping. This means in practice that you have to calculate the average cost for a shipped package. Figuring out the correct price can take time as the orders can be very different but in the end you should be able to find out a price that does not cause you extra losses or is not too expensive for the customer so that the customer pays too much for the shipping.

UPS published an article in January 2011 that was handling free shipping in an e-commerce store. A lot of the retailers in the e-commerce markets find free shipping a value-adding factor in an online store but are still unwilling to provide it. Many of the retailers in the markets offers free shipping only to keep their competitive advantage on the level of the other players in the markets. What a lot of the retailers do they offer free shipping only when it is high shopping season for example before Christmas. (UPS, 2011.)

A survey was made for 3588 online consumers to find more about how the consumers find shipping charges. In the following figure these answers are being presented.

**Shipping chargers survey results**

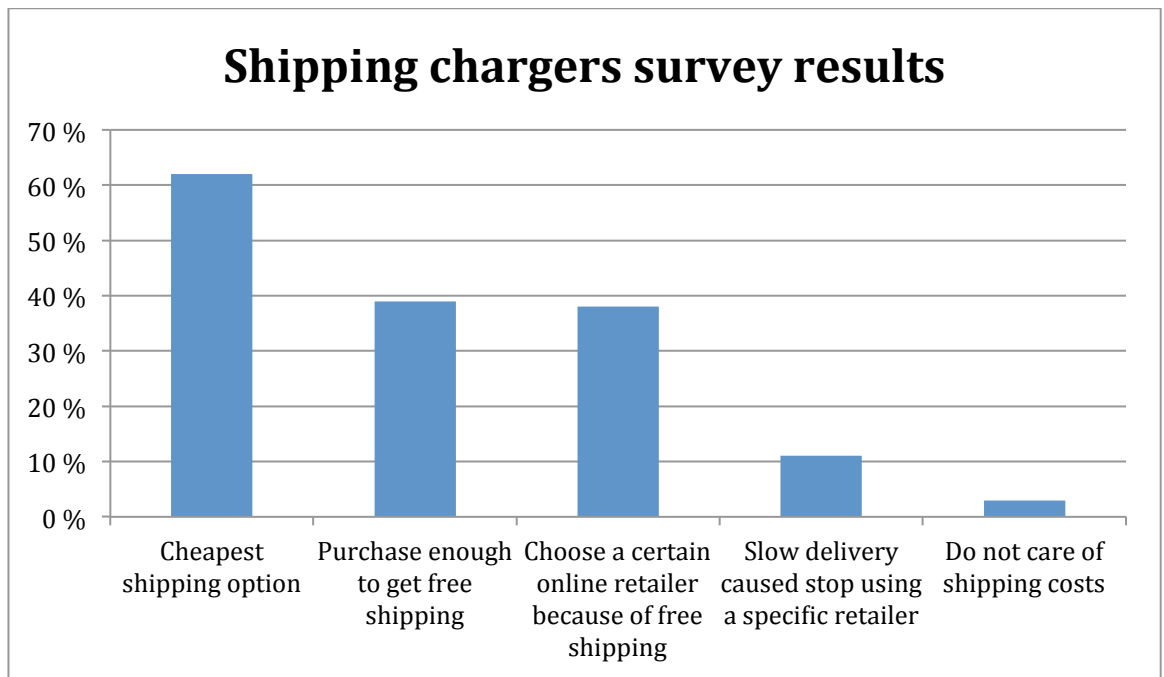| Category | Percentage |
|---|---|
| Cheapest shipping option | ~62% |
| Purchase enough to get free shipping | ~39% |
| Choose a certain online retailer because of free shipping | ~38% |
| Slow delivery caused stop using a specific retailer | ~11% |
| Do not care of shipping costs | ~3% |

Figure 3. Shipping Charges Survey Results. (UPS, 2011.)

In the light of this survey it can clearly be seen how much the consumers appreciate free shipping in an online store.

# 5. Conlusion

The goal with this thesis was to find out possible shipping solutions for Golla's online store and to help Golla to manage the risks in their online store supply chain. Golla has now had their online store up and running for about a year and in general the online store is running smoothly. They have two logistic service providers that are post office and UPS. The survey that was conducted showed that they have not really thought of risk management in their online store since their products value is low and anything serious has yet not happened.

While thinking about performance measurement with their logistics partners they have that covered. As mentioned earlier in the thesis Golla has quarterly reviews with UPS and bi-annual reviews with the postal service. The information flow is working in both ways well with their service providers. UPS had a competitive advantage to other logistics companies when Golla was choosing their supplier to the online store. They had previous business relationship as UPS was already their shipping partner. UPS was able to offer a price that the others could not and since UPS is a major player in the logistics markets it is not a bad pick.

The next goal that Golla has with their online store is to penetrate to more international markets than just Europe. In this case the risk management of the online store supply chain will be topical. When shipping outside EU more problems will come out. There will be added costs with customs such as tariffs. Of course when the shipping distance will grow risks with force majeure will come more possible. Also depending of the country where the products are being shipped the current political situation can affect to the fact that will the recipient ever get their product. Cargo robberies can also be possible. It would be highly recommended for Golla to put more effort to their risk management in future. One thing that will probably affect to the future supply chains is unstable fuel prices. The world's oil resources are told to be running low so this will most definitely increase the fuel prices at some point. It is of course hard to say when this will happen but in the past decade the fuel prices have already increased a lot. When Golla moves to more international markets there can

also occur issues with different currencies. In the past year they have more or less operated inside the Euro zone but when going to American and Asian markets there will be more currencies involved. If a country that Golla would be receiving income suffers from an economic slowdown the value of their currency will most probably decrease as the investors will lose interest in investing to the country's stock markets. This can hurt Golla in incomes. While Golla moves to more international markets they need to think about establishing new warehouses closer to the customers. This helps Golla to reach the customers faster. Also their shipping distances would be shorter so they could offer cheaper shipping costs to their customers. It is rather expensive to send products from Finland to the United States for example. And of course they could have another warehouse for the Asian markets for example in China where their products are being made. With different warehouse locations they could select local suppliers that can possibly offer cheaper prices.

Golla has their current shipping costs so that orders under 30€ inside Finland will cost 5€ and over 30€ are free. Outside Finland shipping is more expensive since orders under 100€ will cost 10€ but orders over 100€ are free. As the article study shows that consumers appreciate free shipping the most in an online store. This is a thing that Golla should consider to change or offer permanent prices with every order no matter how big or small the order is. For example if a customer orders an iPhone case to Germany and the cost of the case is 20€ but then there will be 10€ shipping costs. That is too much and could possibly scare a lot of potential customers away. Golla could also consider to make a small raise to the prices so that they could lure customers with cheaper shipping prices. One suggestion would be for Golla that they could offer free shipping when it is high shopping seasons as the UPS article says.

Golla mentioned that recycling will increase in the future. This is an important thing that they should definitely consider to take as a part of their operation. Products that are faulty or out of date could be used for something new. Recycling and sustainability in overall creates added value and can raise their brand image. Golla could put more effort to the reverse logistics part and use that as a competitive advantage. For example Golla could reuse bags that have faults and plan a recycled line of bags. Every

customer who sends its faulty or old bag back to Golla would get a gift card to their web shop. The gift card would apply only to the products that are made from recycled materials. This would be a great way to get the customers back to their online store and possibly buy other products as well.

## 6. Personal Learnings

Personally I found this study highly interesting and I learned a lot from it. It gave me a whole new perspective of how the e-commerce stores are operating and the possible risks in them. It is very interesting how fragile a supply chain can be if you think about all the possible errors and defects that can affect a supply chain. I think choosing three different sized companies was actually very interesting if you look at the results. In my opinion all of the companies should have used performance measurement systems with their suppliers but only the two bigger ones (Golla & Makia) are using performance measurement. It was really surprising that none of the three companies that was used in this study have not thought of risk management although it should be important with companies like these. In the end I thought that it was really hard to find out suggestions for Golla as their online store is in a really good shape. They have selected a good and reliable supplier and the everyday operation with the online store runs smoothly with almost no errors. After a while I think I found some good suggestions for them. The scope in the suggestions were to increase risk management especially then when they are moving outside Europe. Also an idea of establishing new warehouses were made for Golla so that they could reach their customers faster and finally they should think about sustainability. It is more current every day and consumers are starting to give a lot of value for it. I learned a lot while writing this thesis and I hope I can use the knowledge I gained later in my life.

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# 7. Attachments

Overlay matrix.

| Research Problem (RP) | Investigative Questions (IQ's) | Theoretical Framework | Data Collection | Results |
|---|---|---|---|---|
| How to improve Golla Oy's shipping in B2C online store | What is the current situation in Golla Oy's shipping in their B2C online store? | | Interviews | Gain the knowledge of the current situation so that development can be done. |
| | How to manage risks with outsourced shipping companies? | Risk Management | Interviews, Books, | Learn the best way to handle risks or even avoid them. |
| | What improvements and suggestions can be given for Golla Oy? | | Books, Interviews, Results from data collection, Own suggestions | After the whole research the goal is to give suggestions that will help Golla. |

Questions for interviews.

1. What kind of service provider do you use?
    2. Do you have multiple service providers?
    3. Do you monitor their performance?
        1. If yes, how? Time, costs, etc.
        2. If yes, what kind of measures do you use?
    4. Do you gather information of customer satisfaction related to your performance?
    5. What is your policy in product returns?
    6. How do you operate if a customer has received a faulty item?
    7. How did you choose your current supplier?
        1. Did you measure their performance beforehand?
        2. Did you check their financial status?
        3. Any other facts that affected your pick?
    8. Have you thought of risk management in your supply chain?
    9. Have you faced any problems related to customs?
        1. Any other issues related to over seas shipping or inside Europe?
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